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THE FREE PORT AN AGENCY FOR THE DEVELOPMENT OF AMERICAN COMMERCE

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AN OVERLOOKED ELEMENT IN INTERNATIONAL TRADE

In the discussion and legislation now going forward for the reëstablishment of the American merchant marine and the development of our carrying trade a very important, possibly the most important, of all elements has been neglected. And that is the necessity of cargoes, not only for incoming ships but for outgoing ones as well. In order to re-create our merchant marine and enter the field for the carrying trade of the world in competition with England and Germany, it is necessary that ships should be able to speedily and surely find cargoes. And neither the modification of the registration acts nor the acquisition of ships by the government will achieve the desired result unless provision is made for this primary condition as well. Incoming as well as outgoing cargoes are a *sine qua non* to the development of American trade and shipping.

The Opportunity. Several things coöperate at the present time for re-creation of our carrying trade. They are the European war, the opening of the Panama Canal, the amendments to the registry act and the new currency measure. Added to these is the substantial extension of the free list in the recently enacted tariff bill. The European war has closed the ports of Germany and Russia. It has dislocated the carrying trade of England, Belgium and the Mediterranean countries. The Panama Canal brings South America close to North America and also opens up the trade of the Orient to us. We now have the financial machinery for the transaction of a world business through the establishment of subsidiary banking branches, while our attitude of friendly neutrality to all of the nations involved in the present war lends a strong moral influence to the development of American trade.

The Present Carrying Trade of the World. It is the countries that have substantially free trade that do the carrying trade of the world. They are England, Germany (through her free ports),

Belgium, Holland and Denmark. The great bulk of the carrying trade is done by Great Britain, because she is a free trade country, and a reference to the rise of British shipping in the years which followed the repeal of the corn laws shows a tremendous and immediate increase in her oversea trade following the establishment of free trade. For fifty years she has been mistress of the seas for the very simple reason that ships could come to her ports from all over the world; they could there discharge their cargoes and find other cargoes awaiting them without delay. Here there were no obstacles, obstructions or tariff barriers to interfere with traffic. All history is unanimous in its demonstration that carrying trade will go hundreds of miles to escape tariff barriers. Protective tariffs killed the Spanish trade; they destroyed the rich and prosperous cities of the Netherlands. They killed our own foreign shipping; for commerce hates tariff barriers. In recent years Germany has begun to compete with Great Britain for the carrying trade of the world. She has been able to do this through her free ports, which have existed in Hamburg, Bremen and Lübeck, ever since the Franco-Prussian war. These concessions were insisted on by these old free cities when they entered the Empire. And by Imperial law there exists in the harbor of these cities a large free harbor, into which ships can come and go without the payment of customs duties upon their cargoes. By this means a free counter is provided, across which goods can be exchanged and trans-shipped to other destinations. Or they can be placed in great storage warehouses, where they can remain for an indefinite period until cargoes have accumulated for other ports. If desired they can be shipped at any time into the Empire on the payment of the customs duties. These ports have grown with great rapidity. Here cargoes can be broken and new ones made up. To these ports ships can come from any place in the globe with the assurance that they will quickly find outgoing cargoes to some other destination. The free port has contributed greatly to the upbuilding of German shipping.

THE PROPOSAL

America cannot hope to establish herself as a clearing house of the world until cargoes exist with which to fill ships' bottoms. For ships must be filled not only going but coming;

they must be able to change their destination and do a tramp trade. As it is now, we have cargoes of raw materials to European countries and some outgoing and incoming cargoes to South America and the Orient. But our protective tariff prevents the importation of European wares and compels a large part of the trans-Atlantic shipping to go empty one way.

How can this obstacle be overcome? Aside from a policy of free trade the only other alternative is the development of the free port idea along the lines of German experience. And the suggestion is that Congress should provide for a half dozen free ports as an experiment; three of which should be on the Atlantic seaboard, one on the Gulf, one at Panama, and one or two upon the Pacific Coast.

Quite obviously these free ports should recognize existing transportation and industrial conditions; they should be linked up with rail transportation. The leading Atlantic ports are New York, Boston, and Philadelphia. And New York and Boston have admirable natural advantages and harbor facilities for the planning of such ports. New Orleans is a natural port upon the Gulf of Mexico and may become a port of great prominence in connection with the Panama Canal traffic. Upon the Pacific coast San Francisco, Los Angeles and Seattle are all ports of importance, all of which either own or plan to own a comprehensive system of municipal docks. These would seem to be the natural harbors for the making of preliminary experiments. In addition, all of these cities are rail terminals and have a substantial industrial life which would be quickened by contact with the free port idea.

These ports might be opened in coöperation with various cities. Or it might be provided that any city with a certain amount of customs receipts that offered dockage for a free port would be entitled to enjoy this privilege. This would be an encouragement to cities to acquire and develop their own docks and harbors, which for the most part are in the control of private interests.

Into these ports ships could come from all over the world, from Europe, Africa, Asia, and South America. Here their cargoes could be placed in warehouses without the payment of customs dues; or cargoes could be broken and re-made. Goods which remained in the warehouses would be placed in bond, as is now done for importers.

In addition to the obvious advantages from the re-creation of our shipping, the diversion of trade to American ports would cheapen the cost of living. It would add other business, for periodic surpluses of goods would accumulate, which would find their way into the country, and would also place near at hand many materials needed in industry.

The free port would offer great opportunity for financial operations, now made possible by the recent currency act. It would stimulate international banking, and would tend to shift the financial center of the world to this country. And America, by the logic of events, has become the natural center for the world's financing, just as London became that center several centuries ago, when it shifted from the cities of the Netherlands. But the financial center will only move to this country when it becomes a clearing-house of goods as well as of money. For credit the world over is created by currently created wealth in transit or change, so that even our financial expansion is dependent upon the opening up of American ports to the clearance of the wealth of the world.

Now is the opportune moment for the development of this policy, while the ports of many nations are closed to trade. In addition, South America, the Pacific Islands, and the Orient have become more accessible to our ports through the Panama Canal than they have to the older ports of Europe. There is every reason why many of these countries should prefer to trade with us. But they can only do so when ships are in a position to earn the same return from our ports that they now earn from the ports of England, Germany and the other countries of Europe.

THE FREE PORT OF HAMBURG

Description. When Hamburg entered the German Empire in 1871 the city retained the right to remain a free port, which it had been in substance for centuries. The greater part of the port was set aside as a free port outside the customs union, as the whole city had been before. The Empire contributed 40,000,000 marks toward the construction of the free port, while the city contributed about 150,000,000 marks.

The free port consists of a large number of basins, many of them cut into the land, with quays jutting out into the river. Upon these quays are railroad tracks with cranes for the easy transfer of

freight into the near-by sheds. In the larger outside basins are many mooring posts which provide anchorage for vessels transshipping cargoes in the stream.

As a part of the free port many warehouses are operated by the port authorities. Goods are stored in these warehouses for re-export or for ultimate consignment into Germany or the other countries of Europe.

The free port is considered by the customs department as foreign territory. It is surrounded by a customs line guarded by customs officials. The line is designated by high iron palings upon the land side, while along the river is a floating palisade with an imaginary line across the river, guarded at either end by customs officials. At the land and water entrances of the free port are customs booths at which duty is paid on goods when they enter the Empire.

All of the Hamburg pilots are *ex-officio* customs inspectors. Under their guidance ships pass to their berths in the free port unmolested by customs officers. There are no declarations of dutiable goods to be made; no customs officials are taken aboard, with the delays attendant upon their presence. When a ship is cargoes ready for sea a customs inspector-pilot takes her from the free port to the mouth of the river. At no time is any other representative of the customs service aboard the boat. There is less hindrance to the free movement of the ship than in the free ports of England.

The free port contains such industries as are incident to the care and feeding of the employees; shipyards for repairs; and other industries relating to the building, outfitting and provisioning of ships. In addition there are certain rice-mills and oil-mills. About 15,000 workmen are employed in the free port, but at least 12,000 are employed in the shipyards.

German export produce is loaded to the outgoing ships by big river barges of from 600 to 800 tons' capacity, or by harbor lighters of about 60 tons. River barges are only permitted when they contain at least 50 tons of freight.

The cargoes of very many vessels are handled in mid-stream at the mooring-posts, nearly one-half the tonnage of the harbor being discharged in this way. By this means the capacity of the port is doubled.

Administration, Cost, Etc. The warehousing business of the

free port is in the hands of state control, and is partially privately operated by the warehousing company which erects warehouses upon public lands in the free port. The company issues warrants transferable to order on goods stored in the property. A portion of the net profits has been set aside to create a fund for the acquisition of the company's stock by the state, which will eventually become the full owner of the property by this process. Over 1,000,000 square feet of ground are covered by the warehouses, which contain 5,500,000 square feet of storage space.

The port is not operated to yield a return on the investment, but to develop the prosperity of the city. Low tonnage dues are collected on these ships and for the use of mooring posts, but all these dues are very low. The largest ship that can come up the Elbe and discharge at mooring posts has to pay only \$11 for discharging in mid-stream.

Collection of Customs Dues. The method of collection of import duties on goods passing from the free port to the Empire is as follows. A line of custom houses is maintained about the free port. Goods imported may pay the duty on the spot, or the importer may have a running account against a deposit made by him in the form of German government securities, against which the custom dues are debited.

For the further convenience of importers, goods may be shipped with a customs certificate, under which they are forwarded to the inland consignee, who has to pay the duty on delivery. This system is permitted to Hamburg firms who are well known, without a deposit being required. And goods forwarded in transit through Germany to other countries are handled in the same way, provision being made for the collection of the duty from the ultimate consignee. Other conveniences also exist for the easy importation of goods.

The Commerce of Hamburg. Hamburg is the second seaport in the world, its total foreign commerce being only \$6,000,000 under that of New York in 1913. The total foreign commerce of the port is \$1,960,000,000. It exceeds that of London by \$100,000,000, and far exceeds Liverpool in imports, although England is a free trade country. The growth in recent years has been enormous. Germany has become a great carrying nation within very

recent years. Undoubtedly a large part of this is due to the fact that Hamburg, Bremen and Lübeck are free ports.

Sixty per cent of the maritime commerce of Germany and 40 per cent of its entire foreign commerce passes through Hamburg.

The following statistics are indicative of the sea-going commerce of Hamburg. They are for the year 1907:

	Number of vessels	Net register of tons
Arrival.....	16,473	12,040,000
Departure.....	16,507	12,103,200

The commerce for the same year, 1907, was as follows:

	Weight—Tons	Value—Marks
Imports.....	14,670,200	3,577,314,700
Exports.....	6,142,200	2,802,218,100
Total.....	20,812,400	6,379,532,800

A part of the exports are of German products, but a large part are goods trans-shipped in the free port and reexported to other countries. A large part of these reexports come from the Orient, North and South America, the Mediterranean and Africa. Among the leading articles of reexport are the following:

	Imports	Exports
Coffee.....	205,000,000 marks	81,500,000 marks
Wood.....	205,600,000 marks	49,000,000 marks
Vegetable oils.....	42,400,000 marks	47,000,000 marks
Rubber.....	117,400,000 marks	39,500,000 marks
Cotton.....	160,400,000 marks	38,000,000 marks
Cocoa.....	72,500,000 marks	35,000,000 marks

It is estimated that about one-fifth of Hamburg's exports in volume and in value are reexports through the free port. They amounted in 1907 to 1,350,000 tons.

OPINIONS ON THE FREE PORT

Mr. Edwin J. Clapp in his treatise on *The Free Port of Hamburg* says:

The first advantage of the free port is in facilitating reexportation; indeed the importance of the reexportation trade is large and, above all else, led to its creation. In the free port foreign merchants can maintain sample or consignment stocks. Bonded warehouses do not offer the same opportunity for unhindered movement of merchandise within a port. Everything must be done under the control of customs men. In Hamburg there is no need of counting and verifying

pieces when a reëxportation is made. A bonded warehouse cannot offer the same facilities for various manipulations necessary to prepare the goods for the consumer, such as cutting wines and mixing coffees.

Perhaps the chief advantage of the free port lies in the facilities it offers for the rapid, frictionless discharge of ships with dutiable goods, whether destined for reëxportation or shipment inland.

The free port of Hamburg lets the Hamburg merchants store their goods duty free and offers them complete freedom of manipulation for reëxporting them or for sending them inland, as the market dictates.

Sir Charles Malcolm Kennedy, head of the commercial department of the foreign office of England, says:

In countries where high customs duties are levied and where fiscal regulations are rigid, if an extension of foreign trade is desired and the competition which it involves is a national aim, special facilities must be granted for this purpose. In these circumstances a free zone, sufficiently large to admit of commercial operations and trans-shipments on a scale which will fulfill these conditions (watched but not interfered with by the customs), becomes indispensable. The German government has maintained a free zone of this nature at Hamburg.

Colonial free ports such as Hong Kong and Singapore do not interfere with the uniformity of the home customs and excise policy. These two harbors in particular have become great shipping resorts and distributing centers. The policy which led to their establishment as free ports has certainly promoted British commercial interests.

RECAPITULATION—ADVANTAGES

(a) Without exception the free ports—those of England, Hamburg, Bremen, Lübeck, Antwerp, Copenhagen, Hong Kong and Singapore—are among the commanding ports of the world.

(b) The free port will aid in the reëstablishment of American shipping; it will furnish cargoes going and coming, as well as employment in the harbors.

(c) It will link the United States with South America, Asia and Africa by trade connections which will tend to the promotion of friendly relations to the commercial advantage of each, and will supply an easier outlet for American goods.

(d) The most important gain is the direct gain to America. It will cheapen commodities by bringing great quantities of goods to our doors for importation or export, as trade needs demand. It will stimulate the growth of exporting houses, which can hold goods for an indefinite period without the payment of tariff dues (often equal to the cost of the article itself) for disposal to meet the

trade demands of the whole world. It will upbuild international credit, and shift to America an increasing and ultimately a predominant share in international exchange. It will also aid American manufacturers in need of foreign supplies, who will be able to secure them at American ports of entry, in which merchants can exhibit samples, can mix, grade and alter for domestic or export use, and to which buyers from America and other countries can come as to a great market-place in which commodities of the world are exhibited for purchase and sale.

In addition the opening of the Panama Canal will still further dislocate the trade routes, just as did the opening of the Suez Canal. It places New York, New Orleans and San Francisco in a far different relation than they previously occupied. The recently inaugurated federal reserve currency bill makes possible the development of international credit, which will be largely aided by the up-building of oversea traffic, with the consequent merchandizing and consignee houses that exist in countries where free trade exists.

Finally, America is the natural country to be the counter of the world. Its seacoasts face every other continent; it is the greatest of all reservoirs of raw materials and foodstuffs. In iron and steel and standardized production it is in a position to compete with the world. But international trade (and this is always overlooked) must be reciprocal. It cannot be one-sided. And credit balances cannot for any prolonged period be paid in gold. They can only be paid by exchange of wealth.